

Message Text

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ACTION NEA-11

INFO OCT-01 ISO-00 CIAE-00 INR-10 NSAE-00 PA-01 ICA-11
SP-02 EB-08 COME-00 TRSE-00 OMB-01 SS-15 AID-05
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FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 9828
INFO AMCONSUL ALEXANDRIA

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C O R R E C T E D C O P Y (PARA 8. CORRECTED)

EO 11652 N/A

TAGS: EINV, EG

SUBJECT: INVESTMENT AUTHORITY REVOKES APPROVAL OF
CONTROVRSIAL REAL ESTATE PROJECT

1. SUMMARY: GOE INVESTMENT AUTHORITY HAS REVOKED ITS
PREVIOUS APPROVAL OF REAL ESTATE DEVELOPMENT PROJECT
WHICH, FOR VARIETY OF REASONS, HAS BEEN SUBJECT OF INTENSE
CRITICISM. THIS IS FIRST TIME, AS FAR AS EMBASSY IS AWARE,
THAT AUTHORITY HAS TAKEN SUCH UNILATERAL STEP WITH RESPECT
TO PROJECT ALREADY IN PROGRESS. OSTENSIBLE REASON FOR
REVOCATION OF APPROVAL WAS DECLARATION BY MINISTRY OF
CULTURE THAT PROJECT SITE IS AREA OF ARCHAEOLOGICAL
SIGNIFICANCE, BUT IN FACT, DECISION ALMOST CERTAINLY
BASED ON VIEW THAT IN FACE OF SEVERE CRITICISM IT WOULD
BE POLITICALLY UNWISE TO ALLOW SCHEME TO PROCEED. NEGATIVE
EFFECT ON CONFIDENCE OF PROSPECTIVE INVESTORS IN MEANING
OF GOE OPEN DOOR POLICY COULD RESULT - END SUMMARY.

2. MAY 28 AND 29 CAIRO PRESS REPORTED DECISION BY GOE
INVESTMENT AUTHORITY TO "CANCEL" APPROVAL GIVEN IN 1975
FOR LARGE REAL ESTATE COMPLEX CALLED PYRAMIDS OASIS OR
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PYRAMIDS PLATEAU PROJECT. LOCATED ON SITE 2 KILOMETERS
SOUTHWEST OF GIZA PYRAMIDS, DEVELOPMENT WAS PLANNED TO
INCLUDE HOTELS AND OTHER RESORT FACILITIES, APARTMENTS,
AND HOME SITES. THIS IS FIRST INSTANCE OF WHICH EMBASSY
IS AWARE OF INVESTMENT AUTHORITY UNILATERALLY WITHDRAW-
ING APPROVAL FOR PROJECT ON WHICH WORK HAD BEGUN.
(CLEARING AND GRADING OF LAND AND PREPARATION FOR UTILITY

INSTALLATION HAVE BEEN GOING ON FOR SOME TIME.)

3. PROJECT HAS FOR MONTHS BEEN LOCAL CAUSE CELEBRE, ATTRACTING VOLUBLE CRITICISM IN PRESS AND IN PEOPLE'S ASSEMBLY. CRITICS HAVE CHARGED, INTER ALIA, THAT APPROVAL OF SCHEME INVOLVED ILLEGAL PAYMENTS OR EXERCISE OF IMPROPER INFLUENCE (THERE WERE ALSO RUMORS OF POSSIBLE INVOLVEMENT BY FAMILY OR CLOSE ASSOCIATES OF PRESIDENT SADAT); THAT ANTIQUITIES ALLEGELY LOCATED ON SITE WOULD BE DESTROYED OR MADE INACCESSIBLE; THAT ENVIRONMENT IN PYRAMIDS AREA WOULD BE DEGRADED; THAT FIRM CARRYING OUT SCHEME WAS NOT A REPUTABLE ONE; AND THAT TERMS UNDER WHICH DEVELOPMENT WAS TAKING PLACE REPRESENTED "RIP-OFF" OF GOE. PROJECT SPONSORS HAVE STEADFASTLY DENIED THESE ALLEGATIONS. PRESIDENT SADAT HAS REFERRED TO PROJECT IN RECENT SPEECHES AND IN MAGAZINE INTERVIEW, AND SEVERAL COMMITTEES WERE APPOINTED TO LOOK INTO MATTER.

4. DECISION TO REVOKE INVESTMENT AUTHORITY APPROVAL FOR PROJECT WAS TAKEN (AT BEHEST OF PRIME MINISTER, ACCORDING TO SOME PRESS ACCOUNTS) AT MAY 28 MEETING OF AUTHORITY'S BOARD. MEETING FOLLOWED ANNOUNCEMENT OF FINDING BY MINISTER OF CULTURE THAT PROJECT SITE WAS AN AREA OF ARCHAEOLOGICAL SIGNIFICANCE, AND THAT DEVELOPMENT ACTIVITY WAS THEREFORE PROHIBITED.

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5. THROUGHOUT COURSE OF CONTROVERSY, A PRINCIPAL CONCERN OF MANY HAS BEEN THAT FUROR OVER PROJECT, AFTER INVESTMENT AUTHORITY APPROVAL HAD BEEN GIVEN AND PEOPLE'S ASSEMBLY ITSELF HAD CONSIDERED MATTER, WOULD IMPAIR CONFIDENCE IN MEANINGFULNESS OF GOE'S OPEN DOOR POLICY, AND WOULD THUS ACT AS DETERRENT TO INCREASED FOREIGN INVESTMENT. PRESIDENT HIMSELF ALLUDED TO THIS DANGER IN RECENT "OCTOBER" MAGAZINE INTERVIEW.

6. FROM THIS PERSPECTIVE, USING ARCHAEOLOGICAL SIGNIFICANCE OF AREA AS GROUND FOR CANCELLATION OF GOE APPROVAL WAS PROBABLY BEST WAY OF MINIMIZING POSSIBLE NEGATIVE EFFECTS. IN FACT, HOWEVER, PRINCIPAL REASON FOR DECISION WAS ALMOST CERTAINLY THAT UME AND INTENSITY OF CRITICISM -- THOUGH SOME OF IT MAY HAVE EXAGGERATED OR EVEN WHOLLY BASELESS-- HAD LED GOE OFFICIALS TO CONCLUDE THAT IT WOULD BE POLITICALLY UNWISE TO PERMIT PROJECT TO PROCEED. ACCORDING PROJECT SPONSORS, ANTIQUITIES DEPARTMENT OF MINISTRY OF CULTURE HAD MADE PREVIOUS DETERMINATION THAT THERE WERE NO SIGNIFICANT ARCHAEOLOGICAL REMAINS, AND THIS CONCLUSION WAS SUPPORTED BY AERIAL SURVEYS, TEST PITS, AND BUREHOLES.

7. IT REMAINS BE SEEN TO WHAT EXTENT GOE ACTION IN THIS

CASE WILL DIMINISH WILLINGNESS OF POTENTIAL INVESTORS TO PUT MONEY INTO EGYPT. GOE, FOR ITS PART, HAS ATTEMPTED MINIMIZE POSSIBLE NEGATIVE IMPACT BY, AS NOTED, BASING REVOCATION ON ARCHAEOLOGICAL GROUNDS, BY STATING THAT INVESTMENT AUTHORITY WOULD BE PLEASED CONSIDER PROJECTS PROPOSED BY SAME DEVELOPMENT FIRM ON OTHER SITES, AND BY EXPLICITLY DENYING THAT DECISION REPRESENTED RETREAT FROM OPEN DOOR POLICY. WE NOTE THAT MAY 29 PAPERS WHICH REPORTED REVOCATION ALSO CARRIED ARTICLE ABOUT PLANS BY GOE HOTEL ORGANIZATION TO ENTER INTO A NUMBER OF JOINT VENTURES WITH FOREIGN PARTNERS. PRESUMABLY PROSPECTIVE INVESTORS ALSO LIKELY REALIZE THAT A REAL ESTATE PROJECT WHICH DEPENDS FOR ITS SELLING POINT LARGELY UPON PROXIMITY TO WORLD-FAMOUS NATIONAL MONUMENT, IS IN SOME LIMITED OFFICIAL USE

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SENSE A SPECIAL CASE WITH RESPECT TO LIKELIHOOD OF ITS AROUSING UNFAVORABLE SENTIMENT.

8. REACTION OF BUSINESS AND BANKING COMMUNITY. BUSINESSMEN AND BANKERS WITH WHOM WE HAVE SPOKEN APPEAR TO BE SHARPLY DIVIDED ON IMPACT OF GOE REVOCATION OF PROJECT ON INVESTMENT CLIMATE. SOME HAVE FELT THAT REGARDLESS OF MERITS OF PROJECT OR LACK THEREOF, GOE UNILATERAL ACTION TO CANCEL PREVIOUSLY APPROVED CONTRACT WILL CAUSE CONCERN THAT GOE MIGHT TAKE SIMILAR ACTION IN OTHER CASES WHERE IT BECOMES POLITICALLY DESIRABLE TO DO SO. IN EFFECT THESE BUSINESSMEN ARE SAYING THAT GOE'S WORD CANNOT BE TRUSTED. ON OTHER HAND, A SENIOR BANKER WITH LONG EXPERIENCE IN EGYPT HAS GIVEN HIS VIEW THAT NATURE AND LOCATION OF PROJECT, AND ESPECIALLY THE REPUTATION OF THE FOREIGN INVESTORS, SHOULD BE WELL KNOWN TO SERIOUS BUSINESSMEN, WHO WOULD FIND IT UNDERSTANDABLE FOR A FOREIGN GOVERNMENT GO HAVE SECOND THOUGHTS ABOUT IT. THIS SOURCE DOES NOT BELIEVE FOREIGN INVESTORS' CONFIDENCE IN EGYPT WILL BE AFFECTED BY THE DECISION IN ANY ADVERSE WAY. ON BALANCE EMBASSY BELIEVES THERE COULD BE SOME NEGATIVE IMPACT BOTH FROM THE GOE DECISION TO REVOKE THE PROJECT AND FROM THE INFERENCE THAT IT HAD ACTED UNWISELY TO BEGIN WITH IN APPROVING IT. WHATEVER THE CASE MAY TURN OUT TO BE, SADAT EVIDENTLY FELT THAT THE POSITIVE POLITICAL REACTION TO THE CANCELLATION WOULD OUTWEIGH ANY PROBLEMS WITH FOREIGN INVESTOR CONFIDENCE, AND IN THIS WE THINK HE IS RIGHT. (SEE SEPTTEL ON DOMESTIC POLITICAL ASPECTS.)

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ACTION NEA-11

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9. AIRGRAM GIVING ADDITIONAL DETAILS ON PROJECT
CONTROVERSY FOLLOWS. MATTHEWS

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Message Attributes

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